RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX,1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

Nov. 15, 1989 **LETTER 1030**

Nov. 3 DJIA 2629.51; PTI 3255; A-D Ratio -7.97
Nov. 10 DJIA 2675.61; PTI 3259; A-D Ratio -7.87
Dow Yield: 3.94%; Dow P/E: 11.4; DowPow: 584
Dow Book Value: 1075; Dow 200-day MA: 2519
Percentage of Undervalued Blue-Chips: 17%

THE PICTURE: Things are beginning to crystallize in the Russell brain, and I'm ready to present some opinions. Here they are:

(1) I believe we're on the edge of a global bear market. My feeling is that the true "top" for the US stock market started back at the August 1987 high (see Chart # 1 on page 2). You might get a better feel for the whole pattern if you remember that the "old bull market" peak for the Dow was recorded on **August 25, 1987** at **2722.42**. Following that peak the market crashed to a low of 1738.74. Two years have now passed since the '87 crash, and as this is written the Dow is currently more than **100 points below** its 1987 peak. Strange action, to my mind,

Why do I say "global bear market?" Because today we're in a global economy, and what affects one nation tends to affect all nations. At any rate, glance at the multination stock chart on page 2 (Chart #2 courtesy of *Investor's Daily)*. All the markets are off their highs. Not just one of them -- all.

(2) Despite the incessant talk of "the strong dollar," I think the dollar has topped out -- certainly it has topped out against gold and against the Deutsch mark and against the Swiss franc. Glance at the weekly chart of the mark (Chart #3 courtesy of *Dunn and Hargitt*). I see a good base formation in the mark, and then the upside breakout of a two-year declining trendline. It looks to me like the beginning of a major rise in the mark (or conversely, a major decline in the dollar vs. the mark). Same story for the Swissy.

(3) Short-term interest rates are rising around the world. Currently, the German 3-month Euromark yield is 8.5%, the Japanese 3-month Euroyen yield is 6.60%, the Eurosterling 3-month rate is (get this) 15.5%. Thus, the current US T-bill rate is no longer a bargain (Chart #4, courtesy of Ed Hyman of *CJ Lawrence*).

(4) Everybody's talking about (a) a "softening" US economy, and (b) a guaranteed, for-sure, bet-your- bottom-dollar on it -- DROP in US interest rates. Yet, neither the T-Bonds nor any other bonds have broken out to new highs (Chart #5 courtesy of *Investor's Daily*), and T-bill rates are higher now than they were in 1987 just before the crash. What's happening?

For one thing, the US is running federal deficits of around **$700 million PER DAY!** For another, the US is still running balance-of-payments deficits of around $9-10 billion a month. That kind of economic fiasco would ordinarily call for a run on the dollar. Why isn't there are a run? I think there could be and probably will be, but nobody can time it. Remember the old adage: the market always does what it's supposed to -- but never when.

Actually, the dollar action has hardly been inspiring (Chart #6, courtesy of Paul Eldridge and *Target Publications*). The fact is that following the 1988-89 dollar collapse, the buck had a substandard upward correction. Now the dollar is looking toppy again. Dollar strength? I don't see it (although everybody seems to be talking about it!).

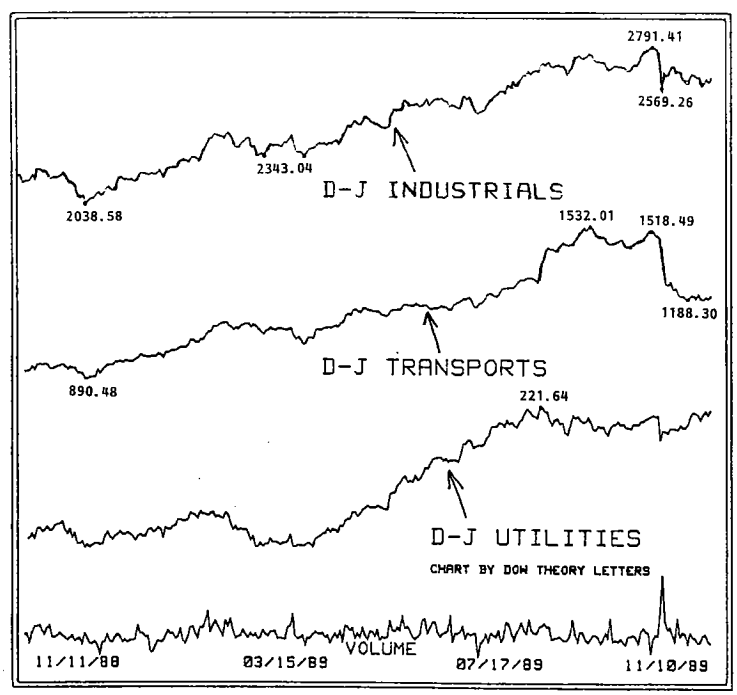
Question: "Why doesn't the Fed lower the discount rate in view of the softening business conditions?" My own opinion is that the Fed believes there's a risk of a run on the dollar if they lower rates. What's wrong with a lower dollar? For one thing, a sliding dollar would scare the hell out of foreign buyers of US debt. And the last thing in the world the Treasury wants to see is a cessation of foreign buying of our enormous debt.

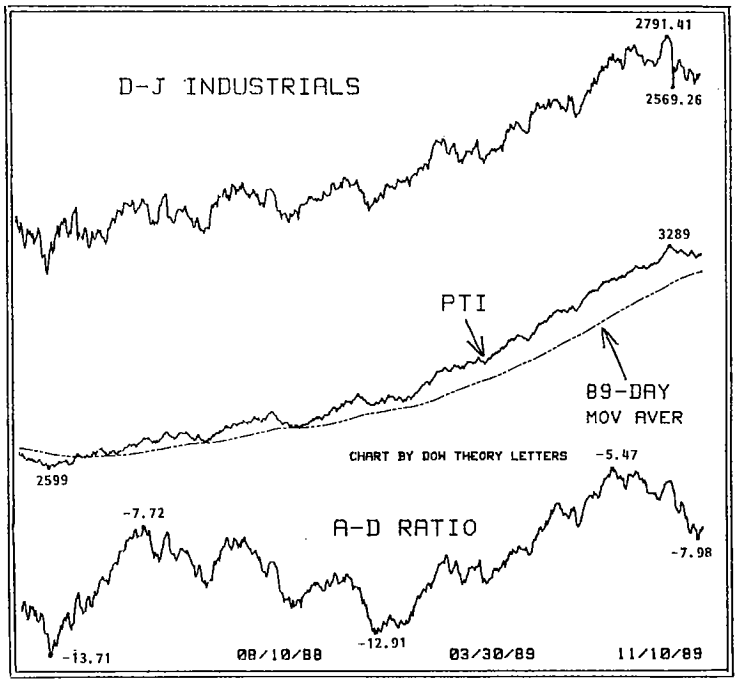
(5) The yen has been a lot weaker than the mark. Why? The main reason is that the Japanese trade surplus has been sliding for months. The Germans, it seems, are the real exporting power. Whatever the Germans are making, the rest of the world obviously continues to want.

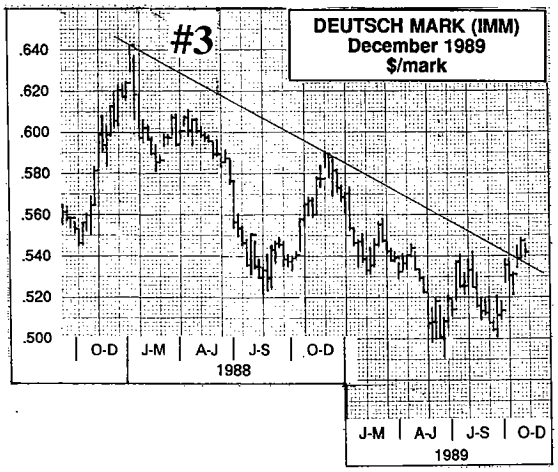
(6) Have you been following the chart of IBM? (Monthly chart #7 courtesy of *Horsey)*. Shares of IBM are evidently the new "certificates of confiscation." Here's "Big Blue," for years the bellwether of the NYSE, sinking below 100. In fact, IBM is now actually below its 1987 crash low. If IBM is in trouble, then is the rest of the US in trouble too? I can't guarantee it either way, but I'd say that IBM at its lowest level since 1983 isn't a good omen.

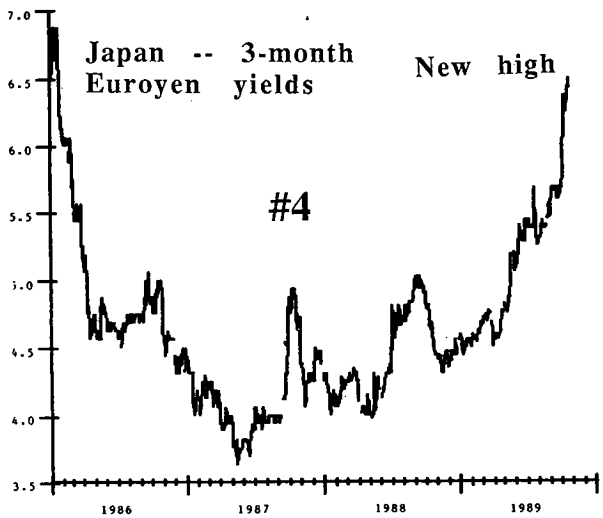
(7) The auto business is slow, and factories are being shut down. Chrysler just closed three plants and laid off 4,000 workers. According to *Automotive News*, half the US car dealers are now breaking even or losing money. Housing prices throughout the US (with the exception of a few isolated areas) are soft. New housing starts were off 14% last month. Even in sky-high La Jolla in the sizzling Southern California area, the word is that housing is turning soft. Sindlinger states that 23 states are now in recession (see Chart #8 courtesy of *Investor's Daily*).

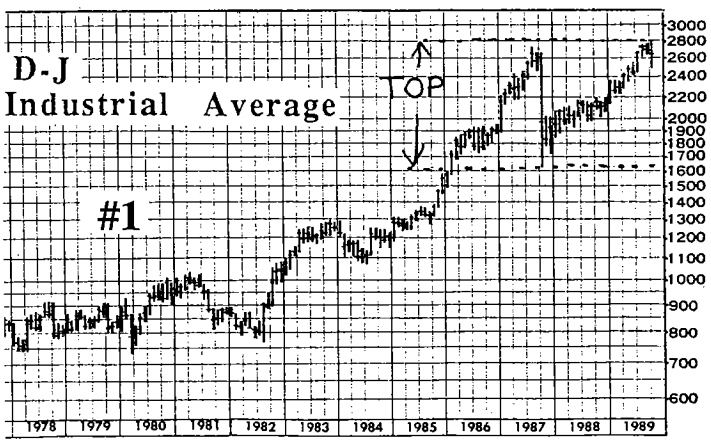
(8) Government spending is a big factor, and one of the major areas of government spending is defense. But the trend of defense




D-J INDUSTRIALS
2791.41
2569.26
3289
PTI
89-DAY
MOV AVER
CHART BY DOW THEORY LETTERS
2599
-5.47
-7.72
A-D RATIO
-7.98
-13.71
-12.91
08/10/88
03/30/89
11/10/89


#3
DEUTSCH MARK (IMM)
December 1989
$/mark
.640
.620
.600
.580
.560
.540
.520
.500
O-D
J-M
A-J
J-S
O-D
1988
J-M
A-J
J-S
O-D
1989


Japan -- 3-month
Euroyen yields
New high
#4
7.0
6.5
6.0
5.5
5.0
4.5
4.0
3.5
1986
1987
1988
1989


D-J
Industrial Average
TOP
#1
3000
2800
2600
2400
2200
2000
1900
1800
1700
1600
1500
1400
1300
1200
1100
1000
900
800
700
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1978
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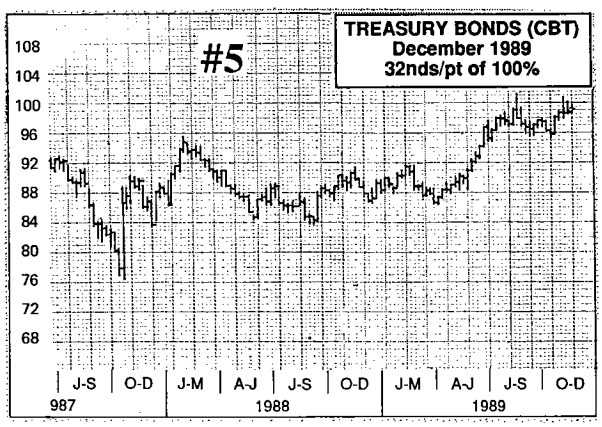
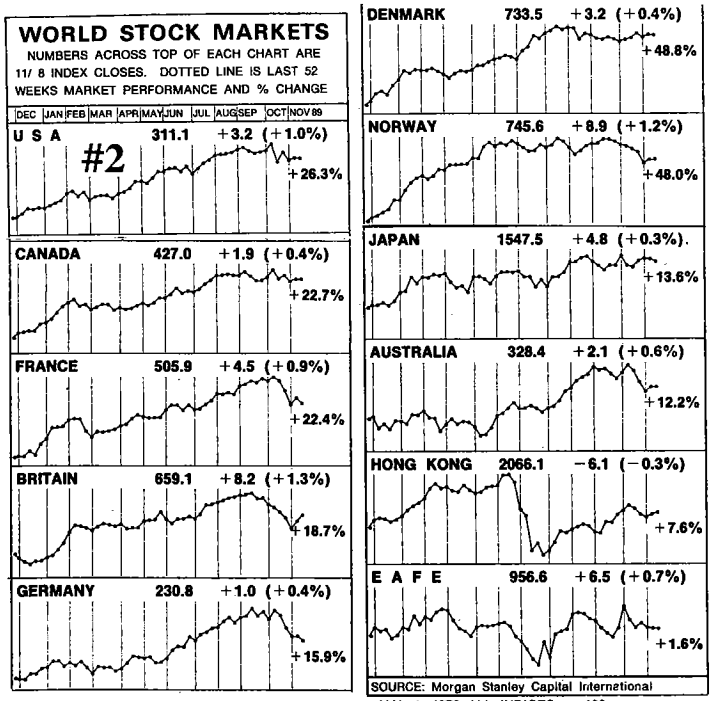
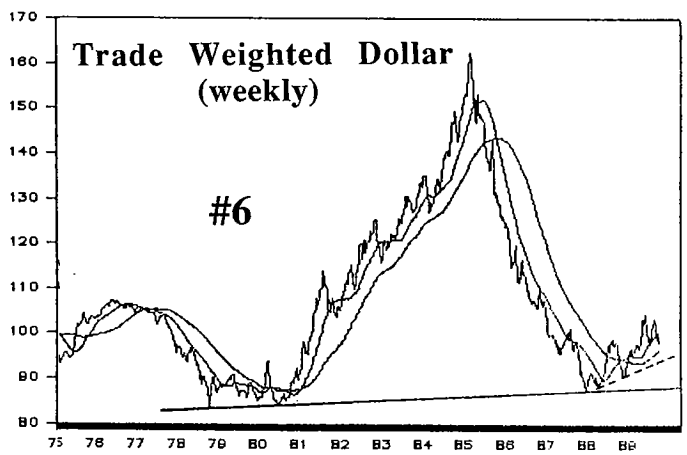
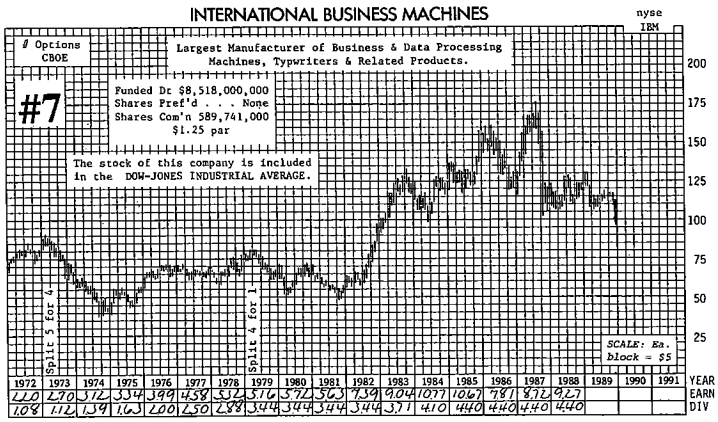
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989

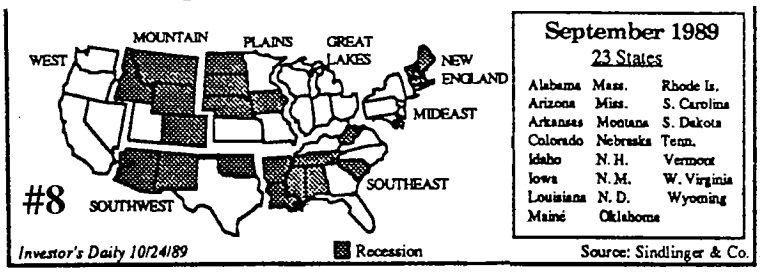

#5
TREASURY BONDS (CBT)
December 1989
32nds/pt of 100%
108
104
100
96
92
88
84
80
76
72
68
J-S
O-D
J-M
A-J
J-S
O-D
J-M
A-J
J-S
O-D
987
1988
1989


WORLD STOCK MARKETS
NUMBERS ACROSS TOP OF EACH CHART ARE
11/ 8 INDEX CLOSES. DOTTED LINE IS LAST 52
WEEKS MARKET PERFORMANCE AND % CHANGE
DEC JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV 89
U S A
311.1
+3.2 (+1.0%)
+26.3%
#2
CANADA
427.0
+1.9 (+0.4%)
+22.7%
FRANCE
505.9
+4.5 (+0.9%)
+22.4%
BRITAIN
659.1
+8.2 (+1.3%)
+18.7%
GERMANY
230.8
+1.0 (+0.4%)
+15.9%
DENMARK
733.5
+3.2 (+0.4%)
+48.8%
NORWAY
745.6
+8.9 (+1.2%)
+48.0%
JAPAN
1547.5
+4.8 (+0.3%).
+13.6%
AUSTRALIA
328.4
+2.1 (+0.6%)
+12.2%
HONG KONG
2066.1
-6.1 (-0.3%)
+7.6%
E A F E
956.6
+6.5 (+0.7%)
+1.6%
SOURCE: Morgan Stanley Capital International
JAN. 1, 1970 ALL INDICES = 100.


Trade Weighted Dollar
(weekly)
#6
170
160
150
140
130
120
110
100
90
80
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89



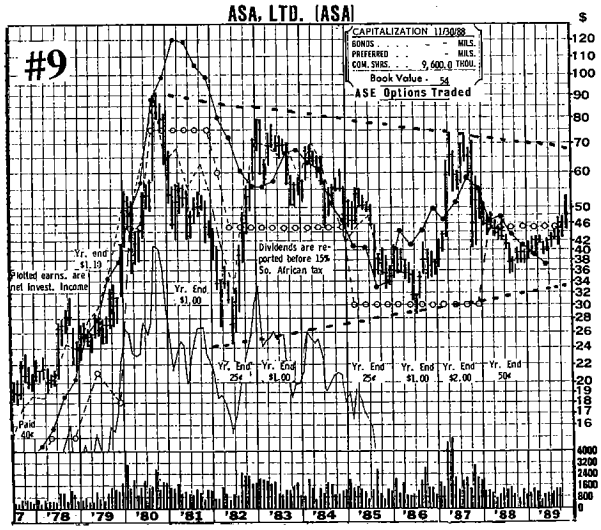
States now in recession according to the Sindlinger & Co. survey.

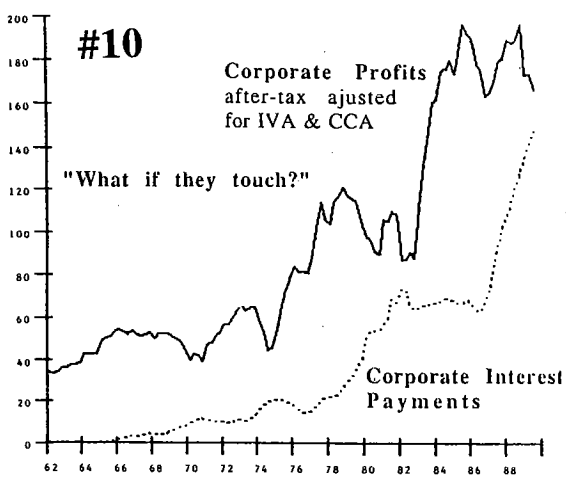


September 1989

23 States

Alabama	Mass.	Rhode Is.
Arizona	Miss.	S. Carolina
Artansas	Montana	S. Dakota
Colorado	Nebraska	Tenn.
Idaho	N. H.	Vermont
Iowa	N. M.	W. Virginia
Louisiana	N. D.	Wyoming
Maine	Oklahoma	





spending, in my opinion, is most definitely heading down (courtesy of Mr. Gorbachev's peace moves). One out of every five jobs in California is defense-connected. Gad, there's a thought -- first the earthquake, now this.

(9) DEBT, the fuel for the boom of the '80s, is now contracting on a nationwide trend basis. Without the fuel, the fire goes out.

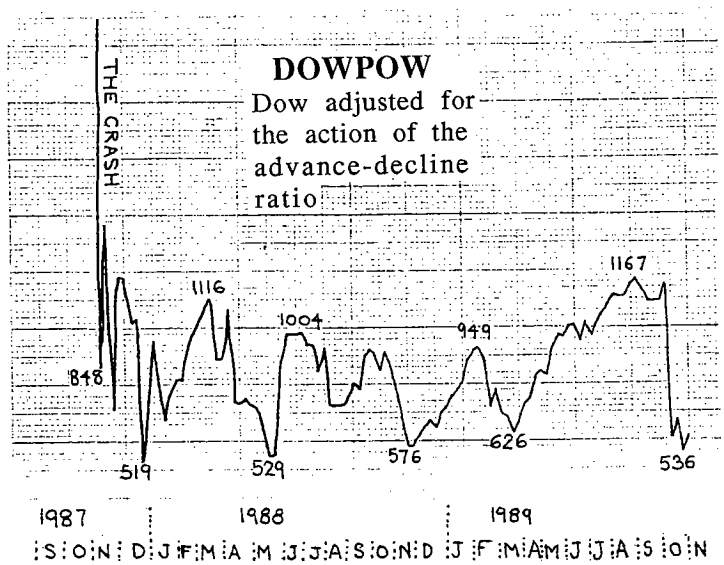
(10) INFLATION, the item that inspired the debt-builders, has broken a rising trend going back to the 1950s. Without the narcotic of inflation, can the US continue to "float" its total of $12 trillion of debt. Stay tuned -- we should find out soon.

(11) CASH. That's what I tend to favor here. It doesn't have to be the Yankee dollar -- marks and francs are cash too. But any way you denominate it, I like cash. Then there's GOLD. Some gold should be in everyone's portfolio. For utmost safety, I opt for gold coins. For leverage, you can own a few gold shares. ASA (Chart #9 courtesy of *Security Research)* has now risen well above 50. Just to test the top of the immense symmetrical triangle formation you see on this chart, ASA would have to advance to 70. Above 70 -- gangbusters! By the way, the S. African political situation looks less menacing (to me) than it has in years. Surprise -- many N. American mines now produce gold at lower costs than S. Africa. American Barrick and Placer Dome are worth owning.

(12) You say your government never gives you anything but lies, headaches, red tape, and higher taxes? Listen, as of January 1, 1990, you'll be able to go to your bank and tell them to buy and hold in your account yen or marks or francs or any other currency. Up to now that's been illegal. Not after January 1. And holding a batch of German marks may not be the stupidest move you can make.

(13) Here's another chart (#10) from Ed Hyman. It's a "what if?" chart. Question: "What could give us a real, rootin'-tootin' bona-fide bear market?" Well, for one thing, WHAT IF corporate profits continue to slide, and WHAT IF those profits slide below corporate interest payments? What would happen? The answer: One heck of a lot of bankruptcies. Note, by the way, the "double top" in corporate profits. And also note the trend of interest payments. On the exchanges they tell you that "the trend is your friend." Not in this area, it isn't.

(14) Here's an interesting comment from usually bullish *Business Week* (Nov. 13). They note, "The old fashioned credit squeeze hasn't happened, but something just as painful is unfolding. Today, the economy is in the slow and tightening grip of a credit squeeze, a new type of credit crunch. It's not the Fed which has brought on this squeeze, but rather the private sector. Financial markets, not governments or their central bankers, are acting as top-cop, punishing borrowers for decades of excess. The squeeze is most obvious in sectors like junk bonds, but its ripple effects



haven't yet been fully felt throughout the highly indebted economy. . . . Debt, which was supposed to liberate companies to compete more efficiently, is imprisoning more and more of them as they struggle to meet hefty interest and principal payments."

Russell comment: Debt, up to a certain point, can be a positive, but beyond that point (and I think we're beyond it now) debt can be a killer. With corporate interest payments now taking up 89% of all adjusted corporate profits, and with corporate profitability now declining, the pressure is on.

All right, having voiced all the foregoing opinions, I still want to be as open-minded as possible. At this point, I'm simply watching the market action for further hints of what may be in store.

In the last Letter I expressed the opinion that the Transports were "through for the duration," and maybe for years to come. I still think so. But forget the predictions and guesses, let's look at the actual figures. The high for the Dow was **2791.41,** and the high for the Transports was **1532.01** (see page 1 chart). If both Averages (and I said BOTH) rally to new highs, then the bull market will be reconfirmed. I don't think that's going to happen, but as I've reminded readers many times, Richard Russell doesn't make the market.

The October lows for the Averages were **2569.26** for Industrials and**1188.30** for the Transports. A break below those lows by both Averages would be ominous and would greatly heighten the odds that a primary bear market is now underway.

The **advance-decline ratio** (a proxy for ALL the stocks on the NYSE) has broken down badly (see page 2 chart). I feel the odds for a new high in the A-D ratio are now slim.

My **Primary Trend Index** (PTI) is trending down, having traced out a series of declining zig-zags. But the PTI has not yet broken below its 89-day moving average (page 2 chart). Thus, the PTI has not yet rendered a verdict on this market.

DowPow (see chart on page 3) has slumped to the 535 area, thus wiping out all the gains going back almost to the 1987 crash low. DowPow is my own proprietary index, the Dow adjusted daily for the action of the advance-decline line. I've noticed that DowPow tends to mirror the action of the average investor's portfolio. When DowPow explodes upward (as it did during 1984-87) investors are all smiles and they're making big bucks. When DowPow goes nowhere (as it has since the '87 crash bottom), the implication is that investors are having a hard time of it. That's my guess -- that investors have been having a hard time of it.

With it all, I still place a shaky question mark in the "Investment Position" box. Why a question mark instead of a bear? I'm simply being extra cautious. Before turning all-out bearish I want my PTI to break below its 89-day moving average. So far, it's been indecisive as you can see on the page 2 chart.

INVESTMENT POSITION: There are times when you have to be very patient with the market. And this is one of those times. The great profits and the great investment areas occur when stocks are decisively undervalued. I'm not giving away any great secret when I tell you that we aren't there today.

So briefly stated, I opt for CASH which means T-bills, money market funds, muni money market funds -- and some gold and, if you have a mind, some gold shares.

What could happen ahead? Often the yield on the Dow offers worthwhile perimeters (by the way, the correct word is perimeters, NOT parameters). The total Dow Dividend (according to Gerry Weiss at *Investment Quality Trends*, here in La Jolla) is currently $100.29. On that basis, a rise to extreme overvaluation on the Dow (i.e., a 3% Dow yield) would take the Dow to 3343. To produce a 4% yield, the Dow would have to drop to 2500. To provide a 5% yield the Dow would have to decline to 2000.

This market has been overvalued for a long time. History tells us that periods of overvaluation ultimately give way to periods of undervaluation. The 6% yield area is where the Dow is generally considered to be undervalued. To provide a yield of 6% (this is the area where many major bear markets end), the Dow (given today's dividends) would have to drop to 1672. Will the Dow get there? I think it will -- in time. But getting there will try our patience. Meanwhile -- above all, don't lose money.

NOTES & QUOTES: When the vote came up to boost the federal debt $300 billion to $3.1 trillion, only five out of the 100 US Senators showed up to vote. The rest didn't want their names attached to the debt boost. Talk about cowardice and irresponsibility, this has to be a new peak. If I had my way, 95 Senators would be voted out of office. This is nongovernment in nonaction!

* *

Am I living in "dreamland, USA?" When I moved to La Jolla in 1967 this place was a tiny, sparsely-populated village. Then it became a better-known "garden spot." And more recently it has become a chi-chi, upscale "oceanside paradise." And prices, prices have shot skyward; note this clip from last week's paper (that's no misprint, prices are up 44% over '88).

Coldwell Banker and the La Jolla Real Estate Brokers Association report that the average price of a single-family home in La Jolla is now $764,100 — up more than 44 percent over this time last year.

The median price of a single-family home in La Jolla has reached $635,000 — up from $425,000 at this time last year. The median price reportedly climbed a full $30,000 during the last quarter alone.

Condominiums have experienced a similar increase with a 35 percent hike over last year. The average price is now placed at $277,200 and the median price is $240,000. This time last year, the average price was $204,800 and the median price was $155,000.

* *

We Almost Lost Him: My old friend, Marty Zweig, has always had unusual troubles. Many years ago when Marty's wife, Mollie, was pregnant and tested via amniocentesis, the test showed the baby would be a girl (those tests are almost infallible). The Zweigs loaded up on pink baby clothes. The baby turned out to be a boy. (A lab technician had misread the test.) Happily, the stores exchanged pink for blue.

Now comes this from Marty's latest Oct. 26 report: "I haven't spent more than 7 days in San Francisco in my life, but somehow I managed to get there a few hours before the quake. I had just begun a jog, headed no less for a run along the water and under the ill-fated Oakland Bay Bridge. Fortunately, we made it only to California St. when all hell broke loose. Cynthia (his assistant) asked a passer-by for the time, so I momentarily stopped. A chunk of masonry about the size of two bricks fell from about 15 stories, landing one step from my path. Glass flew all over the street. Luckily, we all escaped harm. (Friends gave Marty shelter for the night.) When I got back to New York the next night I was still wearing my running shorts, so instead of eating dinner, I did what any running freak would do. I did four miles in the dark." Russell comment: Great, Marty, but do me a favor, don't jog in Central Park, join a gym instead.

* *

One of the major expenses of US corporations is educating semi-literate workers so that they can do the job. A few weeks ago Labor Secretary Dole laid it on the line: "America faces a workforce crisis. Simply put, America's workforce is in a state of unreadiness -- unready for the new jobs, unready for the new realities, unready for the new challenges of the '90s. The assembly lines that once required only hand-eye coordination are heading the way of the dinosaur. Over half the jobs in our economy will soon require education beyond high school." Translation: the Japanese and

Asians with almost 100% literacy are killing us in the manufacturing and high-tech fields.

* *

Prices for jewels at a recent Sotheby auction left the audience gasping. A 32-carat Burmese ruby went for $4.6 million, the highest price ever paid for a colored stone. A rare Kashmir sapphire and diamond necklace went for $3.5 million. A pair of diamond pendant earclips went for $1.4 million. The total auction rang up $31.2 million in sales. This past week, at another auction, a painting by Willem de Kooning sold for $20.6 million, the highest price ever paid for a contemporary picture (the buyer was Japanese).

* *

A "hot" business is being run by BI Inc. of Boulder, Colorado. The company makes electronic bracelets that track prisoners who are under home arrest. Today 7,500 prisoners are tracked daily under home monitoring systems, and the number is expanding rapidly with this year triple 1988 and ten times 1987.

* *

The trend toward disarmament is becoming overwhelming. According to a piece in the Oct. 29 *New York Times,* "farreaching are the implications for security in the 1990s. Hopes are high that the huge conventional and nuclear arms reductions the Soviet Union and the US are discussing in Vienna and Geneva could lead soon, to converting both NATO and the Warsaw Pact alliances from instruments of mutual deterrence to organizations of mutual reassurance -- creating a zone of security from San Diego to Vladivostok." Russell comment: For the last few years I've been talking about the coming major disarmament trend. Future world battles will not be military, they will be economic. As I see it, the trend toward a world cutback in armaments will be massive and irresistible. The nuclear age made large-scale wars too frightening to contemplate and the cost of even small-scale wars is now prohibitive. The worldwide spread of democracy plus the new Russo-American friendship all point to a global trend of disarmament. If you own any military-based stocks, sell 'em.

At an Atlanta meeting a few weeks ago, six former secretaries of state agreed that the Cold War was over. Said Edmund Muskie, "The Cold War as we've known it for most of the last 40 years is behind us. The world competition -- of ideas, of policies, for our place in the world -- is perhaps a better description of what we face now." All six expressed amazement at the rate of change in Russia. Said Dean Rusk, "As one present at the beginning of the Cold War, I've waited a long time to see the day when the Soviet Union would join the rest of the human race and act like a civilized member of the world community." Kissinger stated that if Gorbachev meant what he said in accepting Finland's neutrality and in respecting the internal affairs of other nations, the shift could signify "a sea of change" in European relations.

Along these lines, the Air Force now admits that the $500 million-per-copy B-2 bomber can be detected by the enemy. But they hasten to add, it cannot be destroyed by the enemy. This latest tempered admission clashes markedly with earlier Air Force boasts. The secret fear, of course, is that B-2 is a multibillion dollar mega-lemon.

* *

Leslie Wexner's Limited specialty shops (Limited, Lerner's, Limited Express, Victoria's Secret, Lane Bryant) are expanding so fast competitors' heads are swimming. Wexner now has 3,419 specialty stores (sales $4.6 billion) with 250 additional stores planned for next year. Meanwhile, most of the major department stores are running into trouble. One big exception is Nordstrom's, the wonder full-service department chain. Nordstrom's has just opened its 50th department store in Sacramento. In the next five years Nordstrom's expects to open 15 more stores, mostly in the Midwest and on the East Coast.

* *

New wrinkle: When a corporation files for bankruptcy, who takes over its pension fund liabilities? Why the government, of course, through the Pension Benefit Guaranty Corp. And speaking of Uncle Sam, here's how it stands debt-wise: $2.8 trillion in straight federal debt; contingent liabilities of $222 billion in direct loans; $550 billion on loan guarantees; $720 billion of loans by government-sponsored enterprises; almost $3 trillion in guaranteed bank and S&L loan deposits. You add it up, it's too much for me. Question: What happens in a major recession? The government finds itself in the position of having to raise hundreds of billions of dollars in order to hold up the debt-choked US economy. You can see why Washington is anxious to avoid a recession!

Speaking of government finances, Congress was shocked on Oct. 31 when federal officials stated they need up to $100 billion more to bail out broke S&Ls. Congress had already approved $50 billion last August to be raised by the Resolution Trust Corp. Said angry Pete Stark (D-Oakland), "Nobody has information (about the value of the foreclosed assets). Nobody knows what they're worth." He told bailout chief Seidman, "You want a blank check to put a federal guarantee behind these assets. That's absolutely irresponsible."

* *

With my wife, Faye, in her last year of law school I hear a lot and ponder a lot about the law. Much of it I don't understand, but I understand this. There are now 750,000 lawyers in the US, and it's obvious that there has to be one hell of a lot of litigation to keep this ocean of lawyers busy. People don't talk any more, they sue. And there's money in suing (which is why it's done). A recent study shows that tort suits (damage, rights, etc.) now cost the US 2.6% of its GNP (compared with less than 0.5% for almost all other nations).

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"Trophy" is the new buzz-word: trophy is the name of the game. First it was the young, beautiful "trophy wives" scooped up by Wall Street's current crop of billionaire takeover artists. Now it's the "trophy buildings" being purchased by the Japanese. Japanese trophies in New York include Rockefeller Center, the Tiffany building, the Algonquin Hotel, the Paine Webber Building, the Exxon Building, 30 Wall Street, Essex House, the Intercontinental Hotel on Lexington Ave., the Mobil Building, and the American Standard Building (and I'm not even mentioning the West Coast).

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The argument in Congress is about honesty or should the Social Security income be used to "reduce" the federal deficit or shouldn't it. Said Ernest Hollings (D-SC), "It's time to stop playing games with Social Security and the government's finances. Until we acknowledge the truth -- the true scale and enormity of our deficits -- then we will continue on our current reckless course of do-nothingism, denial and deception." Russell comment: With the federal deficit (including off-budget) at near $300 billion or (get this -- **$700-$900 million a day**), will Congress have the guts to reveal to the nation the horrendous truth? I wonder.

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In the latest issue of *Life* magazine there is a section entitled, "How Will Posterity Judge Reagan?" The following is from Sidney Blumenthal, a political journalist: "Reagan's was one of the most mysterious White Houses of all time. It's really hard to figure what happened or why it happened. And that's because a lot of the energy of the staff went into keeping Reagan away from the levers of government, because they were afraid of what he would do. They had this whole system of filtered option memos in which the President would have little boxes to check off. The only reason Star Wars happened is that the staff erred and allowed Edward Teller and a small group of conservatives from the Heritage Foundation who were behind it to get to Reagan. He approved it without clearing it with the Secretary of Defense or the National Security Advisor. Reagan announces the greatest change in strategic doctrine of the postwar era -- away from deterrence toward defense -- and they've just seen it hours before. The decision-making process was not driven by anything rational, even by bureaucratic standards." Russell comment: This has the ring of truth in it.

And this from Alan Brinkley, historian: "To me, Reagan's legacy is the de-legitimization of the public sector. It was already in some trouble -- that's one of the reasons he got elected. But a president elected in the 1980s did not have to advance that process to the extent Reagan did. He will also be remembered for transforming the idea of raising taxes from a mildly painful choice to a fatal

political one. He created such enormous deficits that there is no money for anything. That is proving to be a problem for George Bush already. He can't really think of anything to do because there is no money to do it." Russell comment: I disagree, Bush thinks of plenty of things to do -- but there still is no money to do them with.

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I got my drug education early. Back in the '60s I was one of the "squares" (i.e., non-drug-users) who used to sit in on the Synanon drug sessions. Synanon was a group who would board and attempt to rehabilitate hard-core drug-users, many of them ex-cons. To put it briefly, those were rough sessions. But they were highly informative. If you want to get a feel what the drug life is all about (and it's an increasingly large part of the American scene), go see "Drugstore Cowboy" starring Matt Dillon. It's a depressing, amazing, extraordinary movie -- and believe me, it has the ring of truth about it.

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It's incredible. A second Soviet revolution takes place. Gorbachev shatters 72 years of Communist orthodoxy in what is perhaps the most shocking change of the 20th century. The Soviets reach out for peace and a major reduction in arms. Gorby cuts Eastern Europe loose. The Eastern Europeans march -- they demand freedom and new governments. With encouragement from Gorby, the Berlin Wall is rendered a relic as millions of East Germans visit or move to West Germany.

All of this catches US foreign policy flat-footed. They never saw it coming. Uncomfortable administration spokesmen counsel caution and warn about "instability." They adopt a wait-and-see attitude. President Bush remains suspicious, timid, puzzled. The US becomes less and less of a global leader as the world marches on without it.

GOLD, PRECIOUS METALS: Is inflation dead (as so many now tell us) or is it just sleeping? I can't answer that question, but I do know that the CRB Commodities Futures Index moved above 230 on Nov. 13, its highest level since July 10. And I do know that gold has been creeping quietly up since its low of 359.50, recorded on September 12.

Last week I picked up my monthly batch of gold coins, and I asked my local dealer whether there had been any increase in gold buying from the public? His answer was, "No, but my more sophisticated gold-buyers have continued to accumulate coins. But there's been almost no increase in buying from the public." So gold has been rising without much public participation, which is basically a bullish situation.

The accompanying chart is worth studying. Gold has now moved decisively above its 144-day moving average (the MA stands at 373). Gold Momentum is an 89-day rate-of-change. Talk about a "saucer bottom," I actually placed a dinner plate on this Momentum Index, and you can see what's been happening. Momentum has now turned positive for the first time in many months, and the technical target for gold is now 400.

I receive a number of inquiries as to whether gold, platinum, or silver is the preferred metal. Gold is the only monetary metal, the only one held by the central banks, and gold is the one that should constitute the core of every precious metal hoard. Platinum is the rarest metal in terms of quantity mined, and thus platinum would be my second choice. Silver is "the poor man's gold," and silver tends to move strongly when there is a rush for precious metals in general.

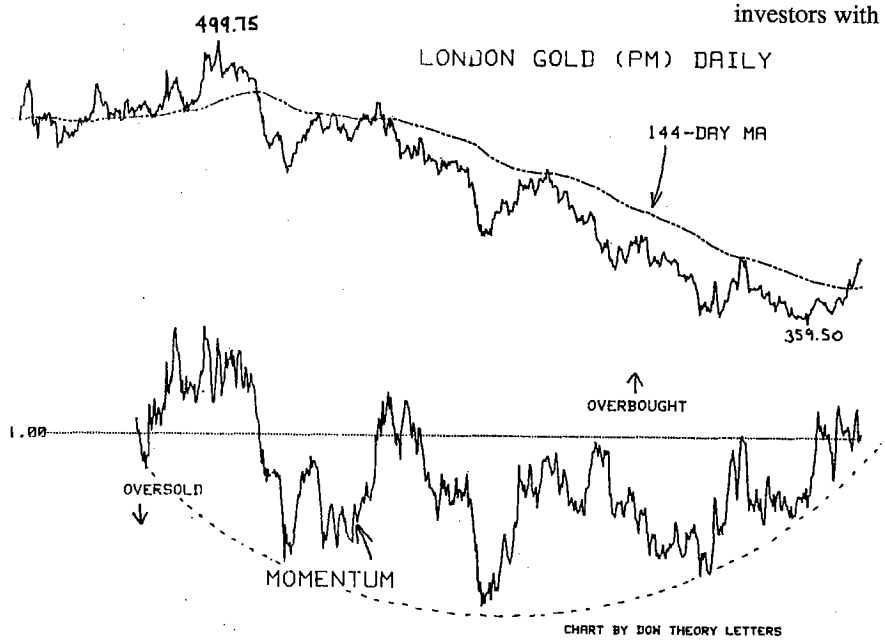
But at times each metal will make its own move (although the move always comes within the framework of a bull or bear market in the precious metal complex). The ratio between the three metals tells the story.

Back in "the old days" silver was valued much higher (in terms of gold) than it is today. The classic ratio for silver was 18:1 (18 ounces of silver would buy one ounce of gold). That ratio has changed drastically in recent years in that silver is now relatively much cheaper than gold.

In talking about ratios, I would prefer discussing ratios of the last few years. The recent low for silver against gold was 56.9 touched in April 1987. The high was 73.8 hit in January 1987. The ratio is now **73.1**. In other words, silver is historically very cheap compared to gold. One ounce of gold will currently buy 73.1 ounces of silver. This ratio has caused many precious metal fans to feel that silver is the metal buy of today. Maybe.

The high for the gold/platinum ratio was 1.00 touched in January 1987. At that time gold and platinum were selling at even money, which told you that platinum was historically cheap. The low for the ratio was hit in November '88 at a ratio of 0.70. The current ratio is 0.78, in the lower part of the range. One ounce of gold will now buy 0.78 ounces of platinum.

To me, the most bullish facet of the current gold rise is that it is occurring during a time when everybody is proclaiming "inflation is over." The rise in gold is also eliciting very little interest from the public or from the advisories. Remember what I've always said, "The bull wants to advance while taking the fewest number of investors with him."



LATE NOTES: My PTI hit a high of 3289 on October 10. From there it dropped to a low of 3247 on November 6. Since then the PTI has rallied back to 3261. So as you can see on the page 2 chart, nothing has really been proved yet -- from either the bullish or the bearish standpoint (at least as far as the PTI is concerned).

If a top has formed in the market (and I believe it has), then that top is still in the formative stages. Following the true completion of a top, the market will cease backing and filling and head down in earnest. At that time the PTI will embark on a long, persistent decline. Day after day the PTI will descend. If that's what is fated to be, we aren't there yet. Until we are there, the bear forces will be held in abeyance -- and market students will remain puzzled.

NEXT MAILING: Nov. 29